



Ranking of Brazilian multinationals finds internationalization steadily increasing

SOBEET, Valor and VCC release the 2009 ranking of Brazilian outward investors.

Report dated October 29, 2009

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São Paulo and New York:

Sociedade Brasileira de Estudos e Empresas Transnacionais e da Globalização Econômica (**SOBEET**), a Brazilian think tank dedicated to research into the internationalization of the Brazilian economy; **Valor Econômico**, Brazil's premier business newspaper; and the **Vale Columbia Center** on Sustainable International Investment, a joint undertaking of the Columbia Law School and The Earth Institute at Columbia University in New York, are releasing the results of a survey of *outward* investors from Brazil today.

The survey, conducted in 2009, covers the period 2006-2008. It focussed on companies that a) had their head office in Brazil, b) exercised management control over at least one foreign affiliate in another country, and c) held outward foreign direct investment (OFDI) stock of at least USD 10 million. The purpose of the survey was to broaden our understanding of the internationalization of Brazilian companies, and to trace the evolution of this process over the last few years. This report thus includes a ranking of Brazilian multinationals based on their internationalization index, as well as one based on their foreign assets.

The internationalization index represents the arithmetical average of three ratios: foreign to total assets, foreign to total sales, and foreign to total employees. Note that foreign sales in this report do *not* include exports. Questionnaires were sent to nearly 200 Brazilian multinationals.¹ The final ranking presented here includes 57 companies. Apart from the information needed to calculate the internationalization index, qualitative information regarding the motivations and characteristics of, and barriers to, the internationalization process of Brazilian companies was also sought, as was information about the OFDI intentions of the companies.

¹ In the case of companies that appeared among the top 20 in the Valor ranking published in 2008 but did not respond to the present survey, the rankings in this year's list are based on the companies' financial statements for fiscal 2008.

SOME KEY FINDINGS

- The 57 listed Brazilian MNEs together had about USD 21 billion in foreign assets, just over USD 40 billion in foreign sales, and nearly 158,500 foreign employees in 2008.
- JBS Friboi came first in the ranking by the internationalization index and sixth in the ranking by foreign assets, with 56% of its assets held abroad. Gerdau (Grupo) was first in the ranking by foreign assets, with 61% of its assets held abroad, and third in the ranking by the internationalization index. (Table 1)
- The average internationalization index for the listed companies rose from 14,9 in 2006 to 16.7 in 2007 and to 17,4 in 2008.
- The internationalization of Brazilian companies is dominated by the private sector, although state-owned enterprises also play a role. Just one company in our list of 57, Petrobras, is from the public sector.
- The global economic crisis has had a major impact on Brazilian OFDI flows (annex figures 2a and 2b). On the other hand, investment intentions remain strongly positive, with nearly 75% of companies planning either an increase in OFDI next year [39%] or no change [35%] – see annex figure 11.

Table 1. Ranking of Brazilian multinationals investing abroad, 2008

| Name | Industry | Ranking by | | Foreign assets / total assets |
|----------------------------|----------------------------------------------------------|----------------|----------------------------|-------------------------------|
| | | Foreign assets | Internationalization index | |
| JBS Friboi | Crop and animal production | 6 | 1 | 55.9 |
| Odebrecht | Construction of buildings | - | 2 | 55.9 |
| Gerdau (Grupo) | Manufacture of basic metals | 1 | 3 | 60.9 |
| Metalfrio | Manufacture of machinery and equipment | 25 | 4 | 68.7 |
| Coteminas (Springs Global) | Manufacture of textiles | 17 | 5 | 19.5 |
| Ibope | Information service activities | - | 6 | 33.0 |
| Sabó | Manufacture of other transport equipment | 18 | 7 | 38.5 |
| Magnesita | Manufacture of other non-metallic mineral products | 12 | 8 | 64.2 |
| Marfrig | Crop and animal production | 7 | 9 | 26.2 |
| AmBev | Manufacture of beverages | 4 | 10 | 12.0 |
| Vale do Rio Doce | Mining of metal ores | 2 | 11 | 38.9 |
| Arteccla | Holding | 27 | 12 | 30.6 |
| Marcopolo | Manufacture of other transport equipment | 16 | 13 | 16.3 |
| WEG | Manufacture of electrical equipment | 11 | 14 | 17.6 |
| Gol | Air transport | 9 | 15 | 58.8 |
| Embraer | Other manufacturing | 10 | 16 | 39.4 |
| Duratex | Specialized construction activities | 22 | 17 | 4.1 |
| Itautec | Manufacture of computer, electronic and optical products | 19 | 18 | 19.7 |
| Camargo Corrêa (Grupo) | Conglomerate | 8 | 19 | 16.2 |

| | | | | |
|-------------------------------|--------------------------------------------------------------------------|----|----|------|
| Stefanini | Computer programming, consultancy and related activities | 34 | 20 | 18.3 |
| Votorantim (Grupo) | Conglomerate | 3 | 21 | 22.2 |
| Construtora Andrade Gutierrez | Construction of buildings | 14 | 22 | 11.4 |
| Tupy | Manufacture of fabricated metal products, except machinery and equipment | 15 | 23 | 19.8 |
| CI&T | Computer programming, consultancy and related activities | 40 | 24 | 16.6 |
| TAM | Air transport | - | 25 | 0.0 |
| Bertin | Manufacture of food products | 13 | 26 | 7.0 |
| All América | Warehousing and support activities for transportation | - | 27 | 0.0 |
| Petrobras | Extraction of crude petroleum and natural gas | 31 | 28 | 11.3 |
| Natura | Manufacture of chemicals and chemical products | 28 | 29 | 2.5 |
| CSN | Mining of metal ores | 5 | 30 | 12.9 |
| G Brasil | Holding | 33 | 31 | 7.3 |
| Perdigão | Manufacture of food products | 44 | 32 | 11.0 |
| Acumuladores Moura | Manufacture of electrical equipment | 30 | 33 | 8.6 |
| Indústrias Romi | Manufacture of machinery and equipment | 32 | 34 | 2.0 |
| Agrale | Manufacture of motor vehicles, trailers and semi-trailers | 42 | 35 | 14.0 |
| Alusa | Civil engineering | - | 36 | 0.0 |
| Aracruz | Manufacture of paper and paper products | 20 | 37 | 16.9 |
| Portobelo | Manufacture of other non-metallic mineral products | 36 | 38 | 3.4 |
| Banco Itaú | Financial and insurance activities | - | 39 | 10.4 |
| Totvs | Computer programming, consultancy and related activities | 39 | 40 | 1.7 |
| Bematech | Manufacture of electrical equipment | 38 | 41 | 1.5 |
| Braskem | Manufacture of chemicals and chemical products | 24 | 42 | 1.0 |
| DHB | Manufacture of other transport equipment | 41 | 43 | 4.6 |
| Módulo Security Solutions | Computer programming, consultancy and related activities | 45 | 44 | 3.6 |
| Altus | Manufacture of electrical equipment | 43 | 45 | 3.5 |
| Inplac | Manufacture of rubber and plastics products | - | 46 | 0.0 |
| lochpe Maxion | Manufacture of other transport equipment | 26 | 47 | 0.1 |
| Minerva | Manufacture of food products | 35 | 48 | 0.8 |
| M. Dias Branco | Manufacture of food products | 23 | 49 | 5.1 |
| Marisol | Manufacture of textiles | 37 | 50 | 2.6 |
| Suzano | Manufacture of paper and paper products | - | 51 | 0.0 |
| Klabin | Manufacture of paper and paper products | - | 52 | 0.0 |
| Sadia | Manufacture of food products | 21 | 53 | 1.2 |
| Romagnole | Manufacture of electrical equipment | 46 | 54 | 0.4 |
| Banco do Brasil | Financial and insurance activities | - | 55 | 0.0 |
| Telemar | Telecommunications | 47 | 56 | 0.2 |
| Cemig | Electricity, gas, steam and air conditioning supply | 29 | 57 | 0.1 |

Source: SOBEET-Valor-VCC survey of Brazilian multinationals, 2009.

OTHER FINDINGS

Distribution by industry - The 57 companies on our list are from 28 different industries: in manufacturing, the manufacture of transport equipment, food products, basic metals, chemicals products, textiles, and electrical equipment; in services, computer programming and consultancy; in the primary sector, crop and animal production, and petroleum and natural gas extraction; among other activities (see table 1 above). Note, however, that the pattern of industry distribution in our list may not necessarily be the pattern of distribution of Brazil's OFDI. Central Bank data show current Brazilian OFDI as concentrated in the service sector. Caution is in order about these figures, though, as it is difficult in Brazilian outflows to separate authentic FDI from purely financial investment under the guise of FDI.² Moreover, since much of Brazil's OFDI goes into tax havens in the first instance, it is also not easy to know where and in what activity this investment ultimately ends up.

Localization. The head offices of 25 of the companies on the list selected are located in the state of São Paulo, while the rest are based in the states of Rio Grande do Sul (6), Rio de Janeiro (5), Santa Catarina (4) Minas Gerais (4), Paraná (2), Ceará (1) and Pernambuco (1) (see annex figure 1.)

Impact of the crisis on Brazilian OFDI. There is no doubt that Brazilian multinationals are being severely hit by the international crisis. This explains why Brazilian OFDI flows is being reduced during 2009 (see annex figure 2). According to our survey, less than 2% of the companies have *not* been affected by the crisis. The majority, 54%, are facing lower demand for their products, besides lower prices and less credit for their international operations. About 5% of the companies see the crisis bringing new opportunities in their business (see annex figure 3). It is also interesting to note that, despite the crisis, only 1,8% of the companies are planning to sell all their assets abroad. Most are planning to reduce costs (47%) or temporarily reduce investment (22%) (see annex figure 4).

Motivations to internationalize - The reason most mentioned, the company's international competitive position, received 26% of the responses. The second most mentioned option with 16% of the responses was following clients into international markets. Other motivations include growing world demand, fiscal incentives, and the desire to reduce dependence on the domestic market (see annex figure 5).

Functions carried out by the overseas units - The answers indicate that most of these units (45%) consist of offices for exporting goods manufactured in Brazil. The second most frequent response was the manufacture of goods and the provision of services overseas (29%). It is interesting to note how other functions, such as logistics services and R&D, already figure among the overseas activities carried out by respondent companies (see annex figure 6).

Most important factors for companies locating overseas - 41% of the responses mentioned access to international or regional markets, while 36% mentioned market size (see annex figure 7).

² See "The growth of Brazil's direct investment abroad and the challenges it faces," by Luís Afonso Lima and Octavio de Barros, Columbia FDI Perspective No. 13, August 17, 2009, <http://www.vcc.columbia.edu/pubs/documents/BrazilOFDI-Final.pdf>, for further discussion.

Principal sources of financing – This question showed the greatest concentration of responses. 71% of respondents indicated their own capital as the main source of funding. It is interesting to note that the answers do not mention domestic bank loans. Access to BNDES funds were mentioned by 5% of the respondents (see annex figure 8).

Internal barriers to internationalization - A diverse range of factors was mentioned as barriers. 24% of respondents cited currency fluctuation. Among other internal barriers frequently mentioned were high taxes, high logistics costs, and the cost of credit (see annex figure 9).

External barriers to internationalization - Tough competition in mature markets was the main barrier outside Brazil, with 32% of the responses. In second place, with 17% of responses, came taxation issues, like double taxation and tax charged on foreign exchange. Other factors mentioned were the regulatory environment of host countries, credit terms and risk on overseas buyers (see annex figure 10).

Outward investment intentions in 2009–2010, compared to 2008. Despite the crisis, 39% of respondents declared their intention to increase OFDI. Among these, the majority intend to increase OFDI by less than 30%. Another 35% of respondents planned to maintain OFDI at current levels, while 27% intend to reduce their investments (see annex figure 11). It is interesting to note that the United States and Argentina still remain the preferred destinations for OFDI from Brazil. Other destinations cited were China, South Africa and India.

BRAZILIAN OFDI: THE BROAD PICTURE³

In 2008, Brazil was the 6th largest outward investor among emerging markets in terms of FDI stock, with USD 162 billion. In terms of outward FDI flows, Brazil was the 5th largest, with nearly USD 21 billion.

The internationalization of Brazilian companies is a relatively recent phenomenon. From 2000 to 2003, OFDI averaged less than USD 1 billion a year. Over the four-year period 2004–2008, this average jumped to nearly USD 14 billion. In 2008, when global FDI inflows were estimated to have fallen by 15%, OFDI from Brazil almost tripled, increasing from just over USD 7 billion in 2007 to nearly USD 21 billion in 2008. UNCTAD data put the current stock of Brazilian OFDI at USD 162 billion in 2008, an increase of 96% over 2003. According to the most recent data, 887 Brazilian companies have invested abroad.

Despite its relative novelty, the internationalization of Brazilian companies has achieved a wide geographic spread. Brazilian OFDI can today be found in 78 countries. Admittedly, some destinations matter more than others. Putting aside investment in tax havens, which accounts for 67% of the total, according to the most recent data, half the stock of OFDI from Brazil had gone to Denmark, the United States and Spain, with developed economies together accounting for 75%. Among emerging markets, Argentina leads, followed by Uruguay.

CONCLUSION

The internationalization of Brazilian companies is a much more widely disseminated phenomenon than one might conclude from the few cases always mentioned by the

³ See the article mentioned in fn. 2 above.

media as examples of overseas success. This survey of internationalized Brazilian companies seeks to contribute not only to identifying opportunities and overcoming the difficulties companies face, but also to understanding this phenomenon, and defining national strategies regarding it. To do this, the survey focussed on obtaining a representative sample of companies.

The conclusion of this survey is that the internationalization of Brazilian companies is not a limited or short-term phenomenon. As with other emerging market OFDI, Brazil's internationalization movement is only just beginning.

The results of the survey also suggest some issues public policies might usefully focus on. These include taxes, logistics, currency fluctuations, and investors' unfamiliarity with potential markets. One issue that stands out is the low participation of Brazilian banks, both private and BNDES, as sources of funds for internationalization. Greater access to credit could make a major contribution to increasing the overseas presence of Brazilian companies.

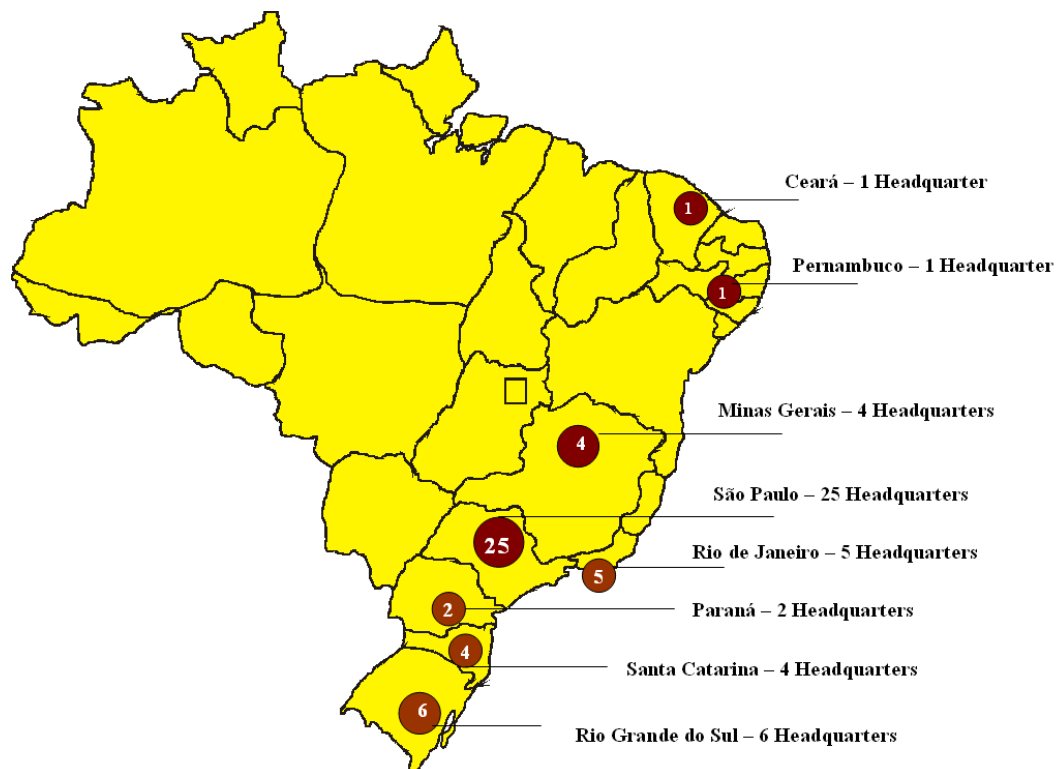
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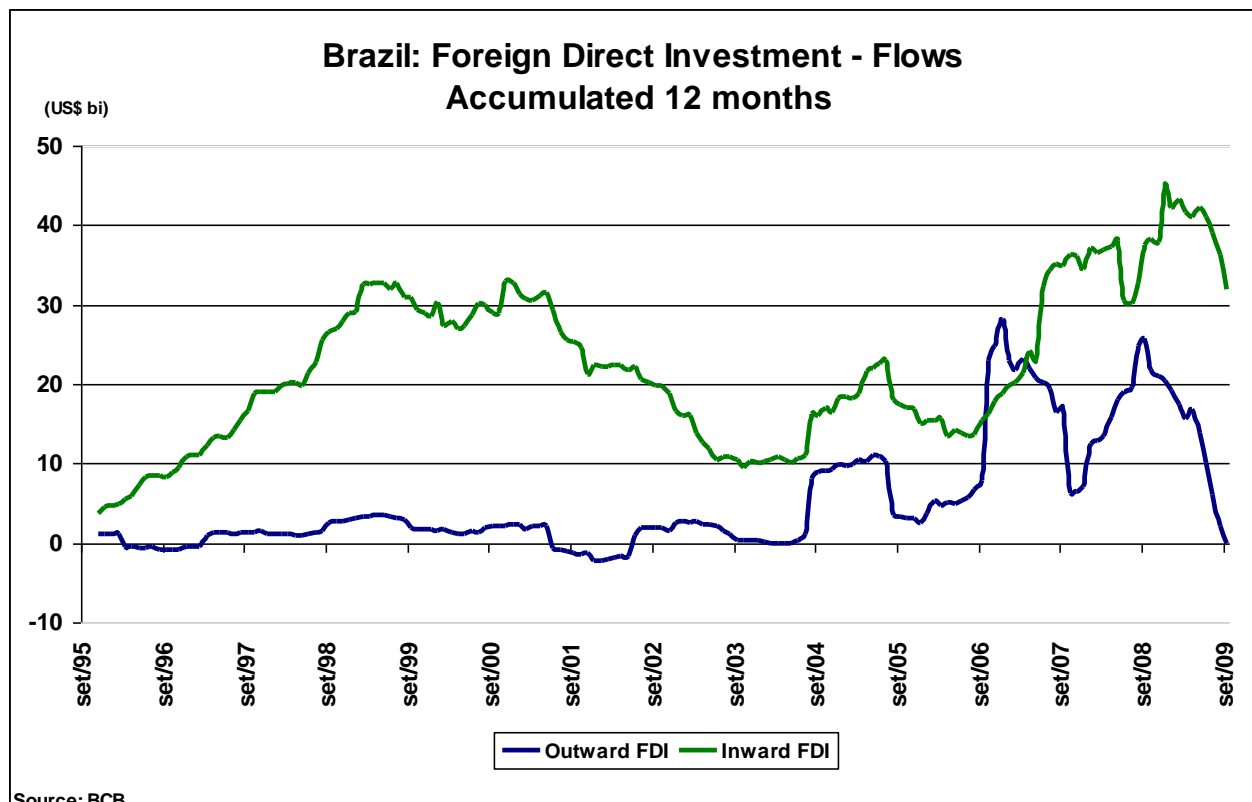
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Annex figure 1: Locations of head offices in Brazil

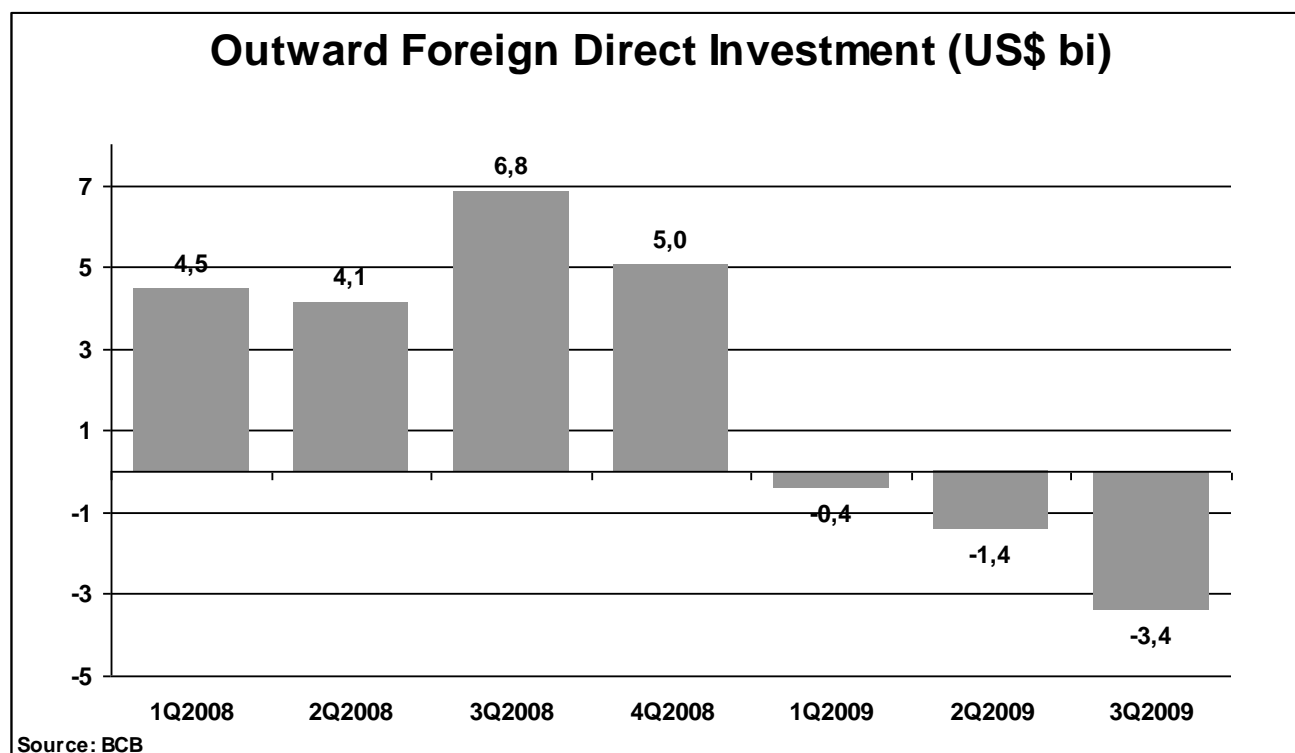


Source: SOBEET-Valor-VCC survey of Brazilian multinationals, 2009.

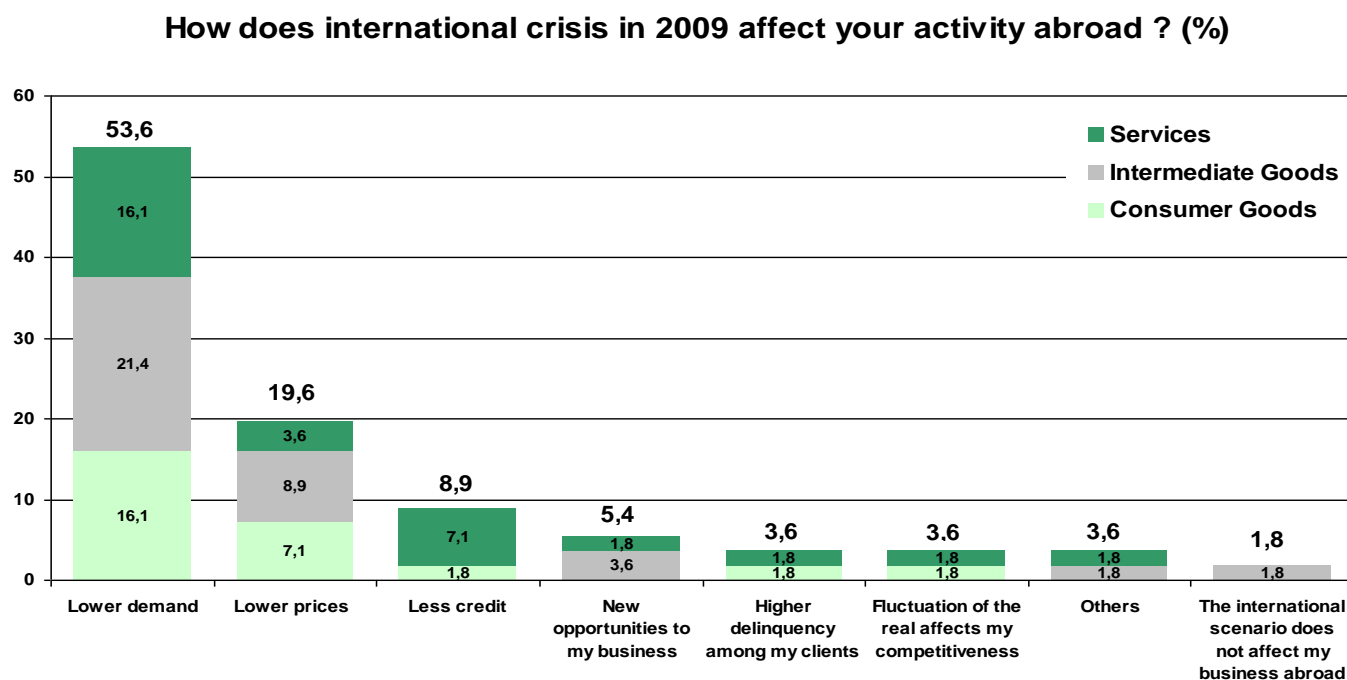
Annex figure 2a:



Annex figure 2b:

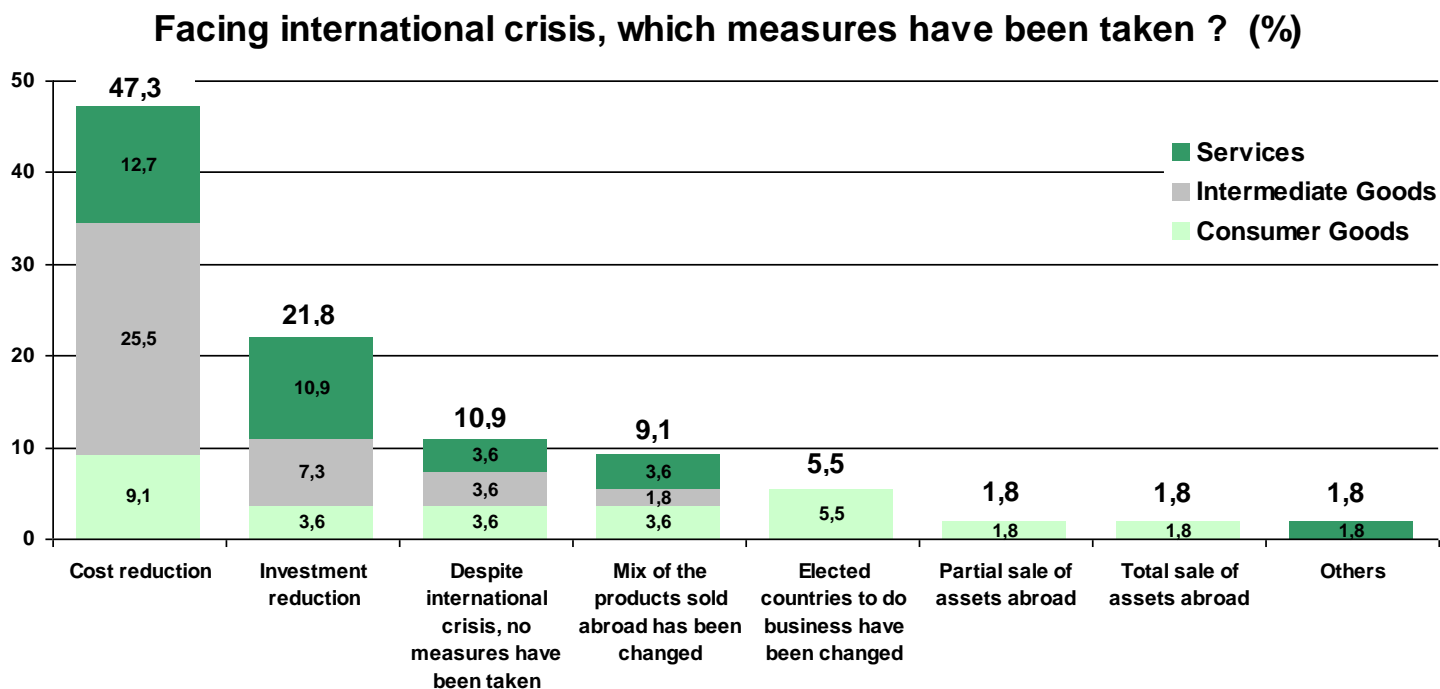


Annex figure 3:



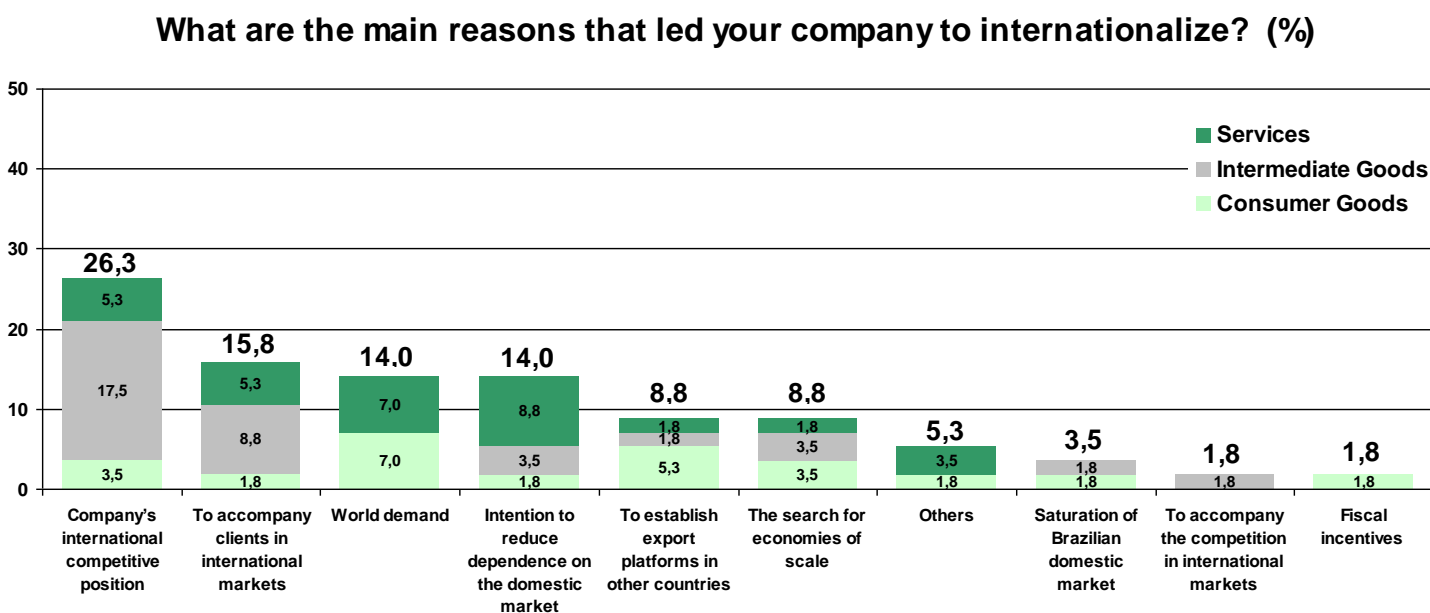
Source: SOBEET-Valor-VCC survey of Brazilian multinationals, 2009.

Annex figure 4



Source: SOBEET-Valor-VCC survey of Brazilian multinationals, 2009.

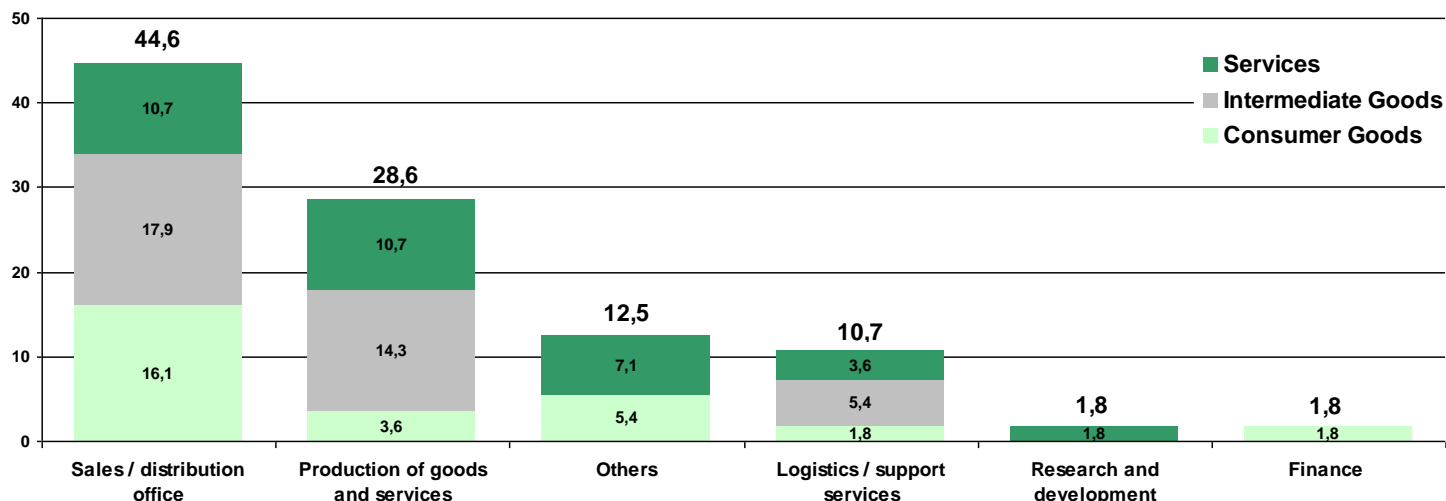
Annex figure 5:



Source: SOBEET-Valor-VCC survey of Brazilian multinationals, 2009.

Annex figure 6:

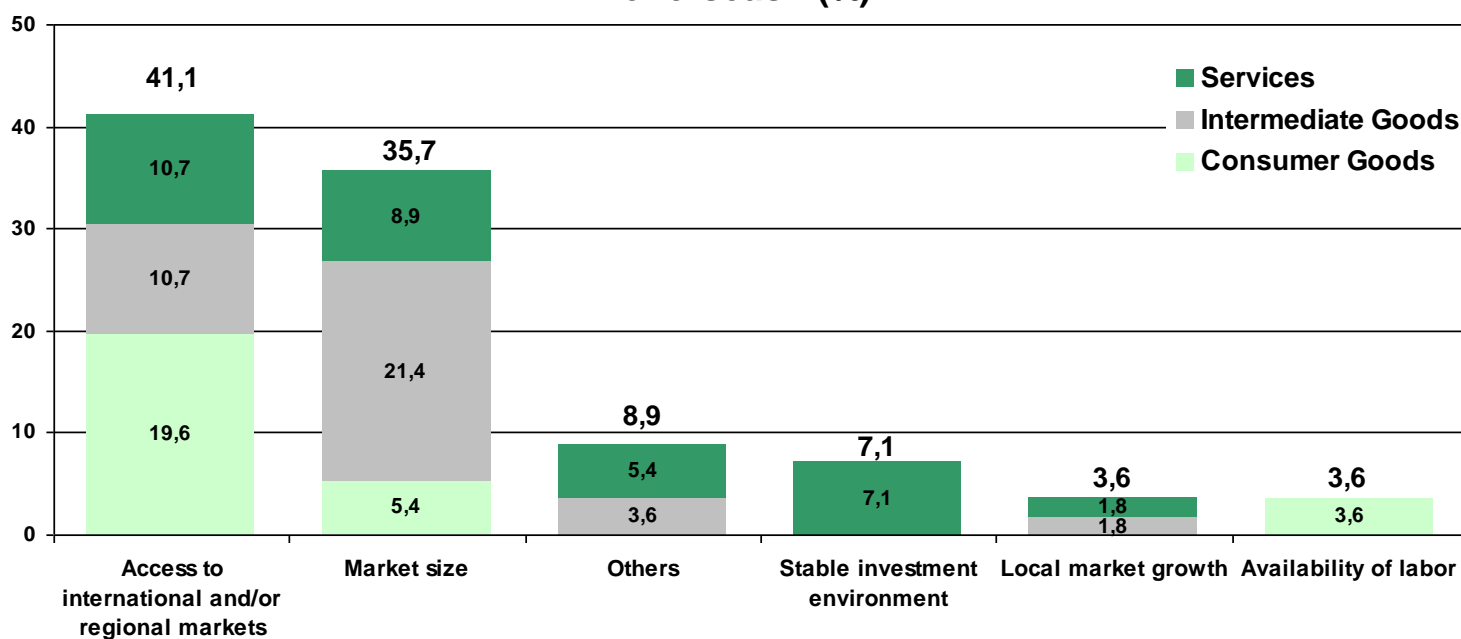
What functions does (do) your company's overseas unit(s) carry out? (%)



Source: SOBEET-Valor-VCC survey of Brazilian multinationals, 2009.

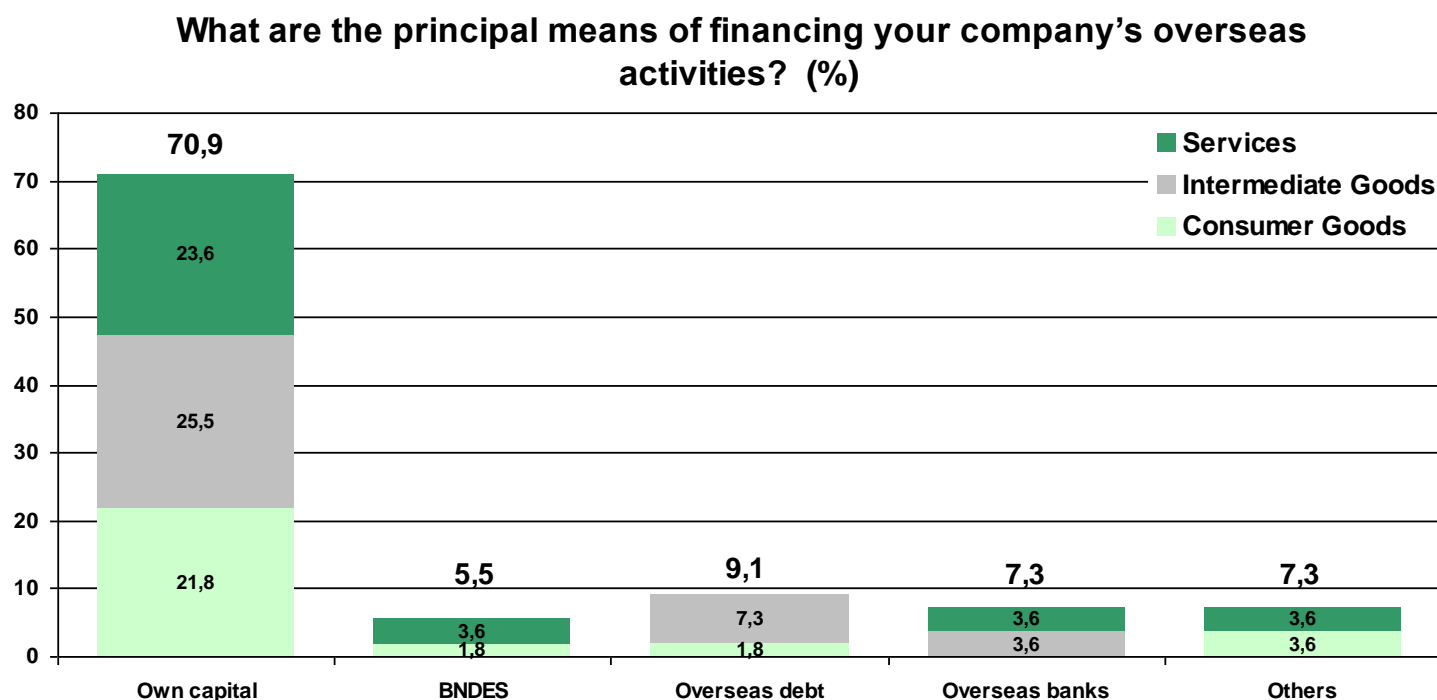
Annex figure 7:

Which factors most influenced the location of your company overseas? (%)



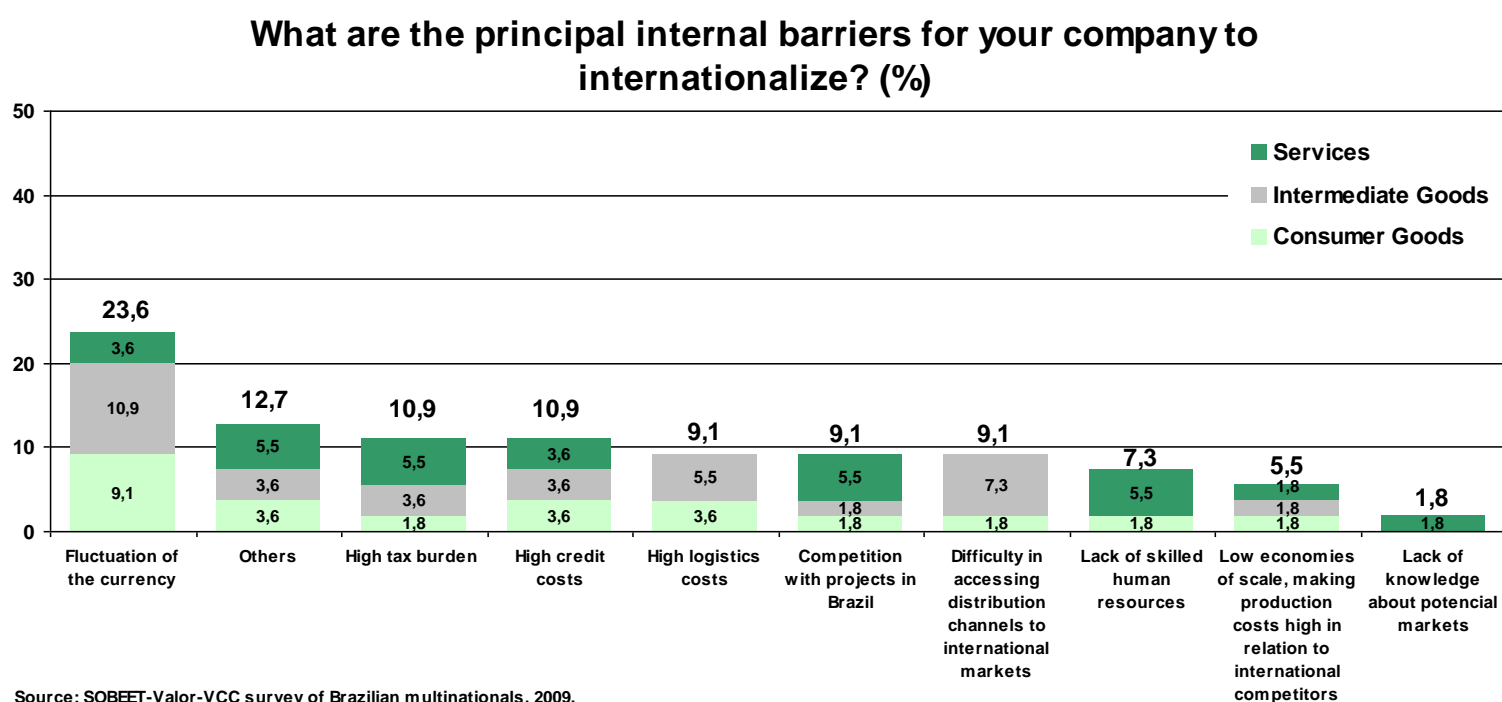
Source: SOBEET-Valor-VCC survey of Brazilian multinationals, 2009.

Annex figure 8:



Source: SOBEET-Valor-VCC survey of Brazilian multinationals, 2009.

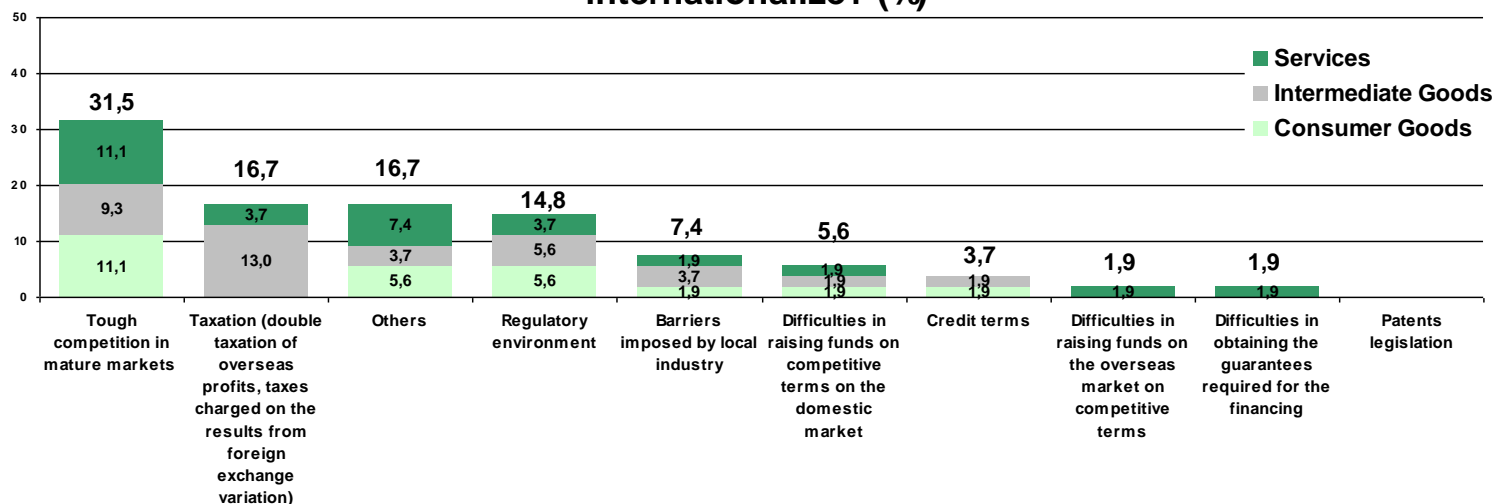
Annex figure 9:



Source: SOBEET-Valor-VCC survey of Brazilian multinationals, 2009.

Annex figure 10:

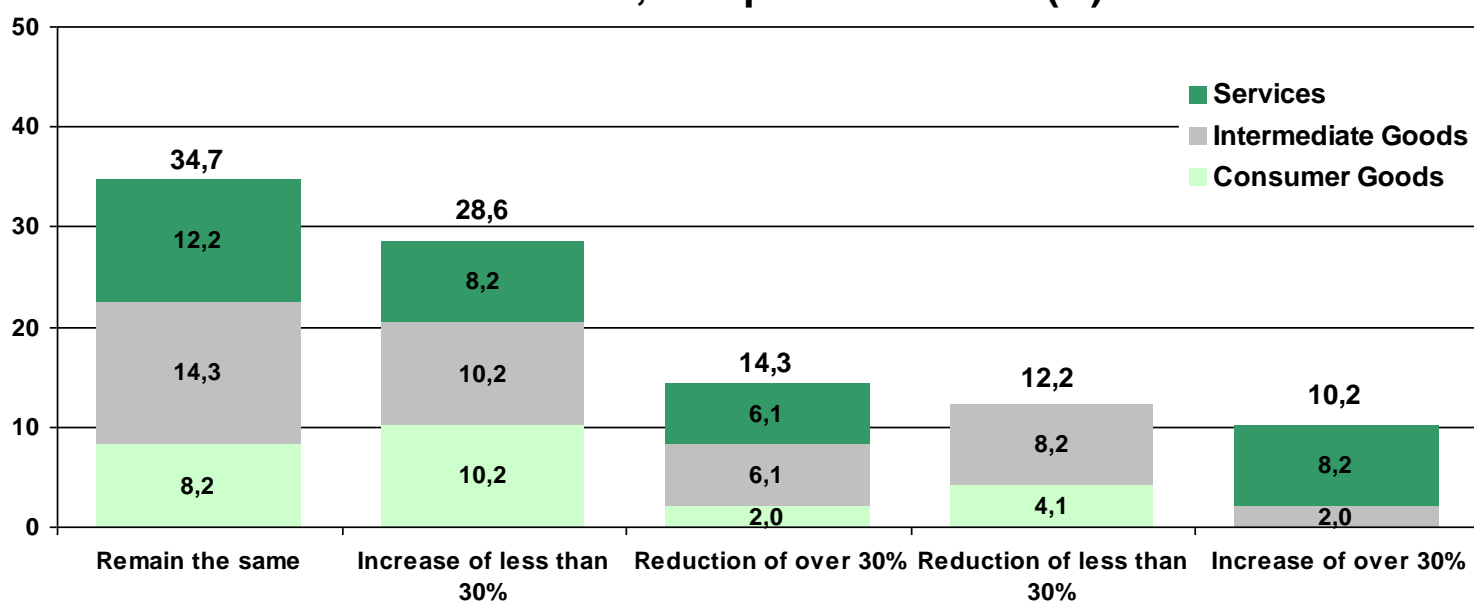
What are the principal external barriers for your company to internationalize? (%)



Source: SOBEET-Valor-VCC survey of Brazilian multinationals, 2009.

Annex figure 11:

What is your intention regarding outward investment in 2009 - 2010, compared to 2008? (%)



Source: SOBEET-Valor-VCC survey of Brazilian multinationals, 2009.